
SYSTEM REVIEW REPORT

November 25, 2014

Hosaka, Rotherham & Co.
and the Peer Review Committee of the California Society of CPAs

We have reviewed the system of quality control for the accounting and auditing practice of Hosaka, Rotherham & Co. (the firm) in effect for the year ended May 31, 2013. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. As a part of our peer review, we considered reviews by regulatory entities, if applicable, in determining the nature and extent of our procedures. The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at www.aicpa.org/prsummary.

As required by the standards, engagements selected for review included audits performed under *Government Auditing Standards* and audits of employee benefit plans.

We noted the following deficiencies during our review:

1. Deficiency – The firm's policies for monitoring include a requirement to identify all engagements that are subject to peer review and to provide a complete and accurate list of those engagements to its reviewer in preparing for its triennial peer review. In the prior peer review, the firm's procedures were not designed to ensure that this policy was followed. As a result, in its prior peer review, the firm did not include an employee benefit plan, which was accepted and performed very near the peer review year-end, in the engagement listing provided to its peer reviewer. This was the firm's only engagement in that must-select category, so the review was not performed in accordance with peer review standards, and the peer review report was required to be recalled. The firm believes it has revised its monitoring procedures to ensure that, now and in the future, all engagements are included in the list.

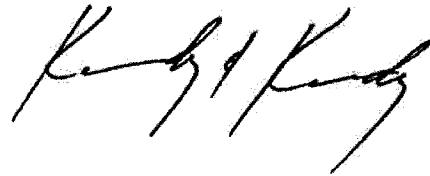
Recommendation – We recommend that the firm continue to apply appropriate monitoring procedures to its list of engagements subject to both triennial peer review and annual inspections. These procedures should monitor all sources of information within the firm to ensure that the engagement list is accurate and complete and that it always captures engagements that may have been accepted and performed very late in the year.

2. Deficiency – The firm's quality control policies for leadership, client acceptance and continuance, human resources, and engagement performance require that key members of the engagement team must be knowledgeable about the auditing and accounting standards of industries in which the firm accepts engagements. During the period under review, we noted that the firm did not have procedures in place to ensure that team members who worked on employee benefit plan engagements would have adequate training and experience to perform audits in this specialized industry. As a result, we noted that key team members did not fully understand the requirements of limited-scope audits in areas other

than investments. We also noted that work documentation was inadequate for participant data, contributions by employers and employees, benefit payments, and the timeliness of transmitting employee deferrals. While we were satisfied that the documentation provided some evidence that testing was performed, it did not clearly describe the nature, timing, and extent of specific procedures applied in these audit areas. The subsequent year engagements are nearing completion, and the firm has stated that current employee benefit plan engagements will be reviewed to ensure that testing procedures in all of these audit areas are fully and clearly documented.

3. Recommendation – We recommend that the firm enhance its continuing education plan to ensure that all team members who work on employee benefit plan audits have received sufficient training to perform these audits properly. We also recommend that the firm consider contracting with an outside practitioner who is knowledgeable and experienced in employee benefit plan audits to provide engagement review and consultation services. Finally, we recommend that the firm ensure that its annual inspection focuses attention on these aspects of its employee benefit plan audits.

In our opinion, except for the deficiencies described above, the system of quality control for the accounting and auditing practice of Hosaka, Rotherham & Co., in effect for the year ended May 31, 2013, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiencies*, or *fail*. Hosaka, Rotherham & Co. has received a peer review rating of *pass with deficiencies*.

A handwritten signature in black ink, appearing to read "K. G. K. G.", is located in the lower right portion of the page.



Hosaka, Rotherham & Company
Certified Public Accountants

James A. Rotherham, CPA
CEO & Managing Partner

Roy T. Hosaka, CPA
Retired

James C. Nagel, CPA
Retired

December 4, 2014

Peer Review Committee of the California Society of CPAs
1800 Gateway Drive, Suite 200
San Mateo, California 94404

Ladies and Gentlemen:

This letter represents our response to the report issued in connection with the peer review of the firm's system of quality control for the accounting and auditing practice in effect for the year ended May 31, 2013.

1. The firm has modified its monitoring procedures related to its list of engagements subject to both triennial peer review and annual inspections. The firm's procedures have been revised to monitor all sources of information within the firm providing relevant data with respect to the identification of those engagements subject to peer review. We believe the revised procedures will ensure that the engagement list is accurate and complete and that it will also identify engagements that may be accepted and performed very late in the year.
2. The firm has put procedures in place requiring employees assigned to employee benefit plan engagements have adequate training to perform these types of audits properly prior to the start of the engagements. Additionally, firm policy has been revised to require an outside practitioner with expertise in employee benefit plan audits review all employee benefit plan engagements for the next year prior to the issuance of any employee benefit plan audit reports.

Sincerely,

Hosaka, Rotherham & Company

November 3, 2015

James Anthony Rotherham
Hosaka, Rotherham & Co.
1011 Camino Del Rio South Ste 410
San Diego, CA 92108

Dear Mr. Rotherham:

On November 3, 2015 the California Peer Review Committee determined that your most recent peer review is complete.

The due date for your next review is November 30, 2016. This is the date by which all review documents should be completed and submitted to the administering entity.

Sincerely,



Susan Lamb
Peer Review Manager

cc: James N Kennedy

Firm No. 6319902

Review No. 367523